

## Message Text

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44

ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 COME-00 INT-08 SCEM-02 SCI-06

OMB-01 TRSE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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USIA-15 ACDA-19 IO-14 FPC-01 AEC-11 NEA-10 DRC-01

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R 231521Z NOV 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 1844

C O N F I D E N T I A L CARACAS 9969

EO 11652: GDS

TAGS: ENRG VE

SUBJECT: PRELIMINARY STUDIES FOR AN EVENTUAL US-VENEZUELAN  
ENERGY AGREEMENT

REF: A. STATE 227839; B. CARACAS 9923

1. WE ARE GRATIFIED TO NOTE THAT SO FAR AS BASIC PRINCIPLES  
ARE CONCERNED, DEPARTMENT AND EMBASSY ARE IN AGREEMENT AS TO  
PRELIMINARY STEPS TO BE TAKEN TO WORK OUT A USG POLICY POSITION  
WITH REGARD TO THE EVENTUAL NEGOTIATION OF AN ENERGY AGREEMENT  
WITH VENEZUELA. IT IS PROBABLE THAT TACTICAL PLANS CANNOT BE  
FOCUSED UNTIL WE KNOW THE OUTCOME OF THE VENEZUELAN ELECTIONS  
DECEMBER 9 AND WHICH PARTY WILL FORM THE NEW GOVERNMENT.  
ON BALANCE, AND BASED ON THE RATHER NEBULOUS DECLARATIONS  
OF COPEI CANDIDATE LORENZO FERNANDEZ AND HIS KNOWN SUPER-  
NATIONALISTIC UTTERANCES WITH REGARD TO VENEZUELAN PETROLEUM  
FOR THE VENEZUELAN AND THE POSSIBILITY OF ADVOCATING A SPEED-UP  
OF THE REVERSION LAW, BOTH THE COMPANIES AND USG WILL  
HAVE GREATER DIFFICULTY IN NEGOTIATING WITH A COPEYANO CABINET  
THAN WITH AD. CARLOS ANDRES PEREZ (CARACAS 9868) HAS BEEN  
MORE PRECISE, IF NOT MUCH LESS NATIONALISTIC, IN HIS FORMULATION  
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OF POLICY STATEMENTS ON PETROLEUM; AND HE LIKEWISE IN HIS PLATFORM

AT BARQUISIMETO MADE STATEMENTS WITH REGARD TO FUTURE FOREIGN INVESTMENT WHICH SEEM FAR MORE HOPEFUL FROM OUR POINT OF VIEW THAN THE MORE IMPRECISE FORMULATIONS OF HIS COPEI RIVAL.

2. AS WE SEE IT AT THIS TIME, NEGOTIATIONS ON A GOVERNMENT-TO-GOVERNMENT LEVEL WOULD PROBABLY HAVE A BETTER CHANCE OF SUCCESS IF THEY WERE CONFINED TO A GENERAL STATEMENT OF PRINCIPLES TO PROTECT FUTURE US INVESTMENT IN THE ORINOCO OIL RESERVES, WITH A GUARANTEE FOR UNLIMITED ACCEPTANCE BY THE UNITED STATES OF ANY OIL COMING FROM THAT RESERVE, PLUS AT LEAST A GOVERNMENT-TO-GOVERNMENT STATEMENT OF PRINCIPLES WHICH MIGHT GO SOME WAY TO SATISFYING THE VENEZUELAN ASPIRATIONS FOR A WIDER ACCEPTANCE BY THE UNITED STATES OF OTHER EXPORTS THAN OIL. IN THIS CONNECTION, DEPARTMENT WILL WISH TO STUDY CAREFULLY THE EMBASSY AIRGRAM 355 (CARACAS 9923) ON POSSIBLE SAVINGS OF US ENERGY RESOURCES IF WE SHOULD IMPORT SUCH PRODUCTS AS VENEZUELAN REFINED ALUMINUM RATHER THAN UTILIZE OUR OWN SCARCE SOURCES OF NATURAL GAS AND ELECTRICITY TO PRODUCE REFINED ALUMINUM PRODUCTS IN THE UNITED STATES.

3. AT THIS STAGE WE BELIEVE THAT A POSSIBLE FORESHORTENING OF THE REVERSION LAW SHOULD BE DEALT WITH, NOT AT A GOVERNMENT LEVEL, BUT HOPEFULLY DEFERRED UNTIL THE US-VENEZUELAN ENERGY AGREEMENT HAS BEEN CONCLUDED. THIS IN ITSELF SHOULD MAKE THE WAY EASIER FOR OUR COMPANIES, WHEN THEY BEGIN DISCUSSIONS WITH CVP AND THE MINISTRY OF HYDROCARBONS ON THE SHAPE OF THINGS TO COME, EITHER UNDER AN ACCELERATED REVERSION SCHEDULE OR IN 1983, WHEN MOST OF THE OIL CONCESSIONS EXPIRE. THE COMPANIES IN GENERAL HAVE ALREADY RESIGNED THEMSELVES TO THE NECESSITY OF ENTERING INTO JOINT VENTURES WITH CVP; AND IN FACT THE RIGORS OF THE REVERSION LAW MIGHT BE ABATED IF IN FACT BEFORE IT TOOK EFFECT THE COMPANIES WERE ALREADY PARTNERS WITH CVP, WHICH PRESUMABLY WOULD HAVE A MAJORITY INTEREST SLIGHTLY GREATER THAN THAT OF THE COMPANIES.

4. TO SUM UP, WE ENVISAGE A TWO-STAGE DIPLOMATIC DEVELOPMENT OF OUR PETROLEUM RELATIONS WITH VENEZUELA, OF WHICH THE FIRST WOULD BE ON A GOVERNMENT-TO-GOVERNMENT LEVEL (I.E., THE ENERGY AGREEMENT) AND THE SECOND A COMPANY-CVP-MINISTRY OF HYDROCARBONS CONSULTATION LOOKING TOWARD PRACTICAL LONG-TERM  
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ARRANGEMENTS GOVERNING NOT ONLY THE COMPANIES' FUTURE RELATIONSHIPS HERE BUT OUR OWN PROSPECTS FOR THE LONG-RANGE RELIANCE BY THE UNITED STATES ON VENEZUELA AS A SOURCE OF OIL.

5. THESE OBSERVATIONS MAY OF COURSE TURN OUT TO BE MERELY AN INTELLECTUAL EXERCISE, GIVEN THE PRESENT WORLD CRISIS IN PETROLEUM ENERGY AND THE OVER-CONFIDENT MOOD IN WHICH VENEZUELAN'S FIND THEMSELVES AS POSSESSORS OF THE WESTERN HEMISPHERE'S

LARGES KNOWN RESERVE OF PETROLEUM AND AS THE PRESENT BENEFICIARIES OF OIL AT \$7.24/B. UNDOUBTEDLY POLITICIANS OF WHATEVER PARTY WINS WILL BE INCLINED TO TAKE A SHORT RANGE VIEW AND THINK THEY HAVE THE UNITED STATES "OVER A BARREL" OF OIL. HOWEVER, WITH PRESIDENT NIXON'S ENERGY PROGRAM COMING INTO REALIZATION WITHIN A DECADE'S TIME, WHICH CORRESPONDS CLOSELY TO THE EXPIRY OF THE OIL CONCESSIONS, A FUTURE VENEZUELAN GOVERNMENT MAY IN FACT COME TO REALIZE THAT ITS WISEST POLICY IS TO REACH AN EQUITABLE AGREEMENT WITH THE UNITED STATES BEFORE THE TECHNOLOGY THAT MADE THE ATOMIC BOMB AND SENT ASTRONAUTS TO THE MOON MIGHT FIND VENEZUELA LONG ON OIL BUT LOW IN PRICE.

6. COMING TO THE SPECIFICS AS DEVELOPED REFTEL A AND IN DEVINE'S USEFUL MEMORANDUM TO SHLAUDEMANN DATED NOVEMBER 13 AND THE SUGGESTED TIME SEQUENCE OUTLINED IN PARA TWO REFTEL, WE CONCUR IN DEPARTMENT'S SUGGESTION THAT OGG VISIT WASHINGTON IN EARLY JANUARY; AND IN THE MEANWHILE WE WILL WORK UP SUCH OPTIONS AS MIGHT AT THAT TIME FIT INTO THE PICTURE AS SEEN FOLLOWING THE VENEZUELAN ELECTIONS AND DEVELOPMENTS IN THE US CONSERVATION OF ENERGY EFFORT INITIATED FOLLOWING THE PRESIDENT'S MESSAGE OF NOVEMBER 7. THIS WOULD THEN GIVE US A TIME FRAME OF PERHAPS FEBRUARY-MARCH IN WHICH TO FIRM UP A LINE OF POLICY AND A CLEARER PICTURE OF THE TACTICS TO BE EMPLOYED IN ACHIEVING THE OBJECTIVES OF THAT POLICY.  
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